

ENERGY AND TECHNOLOGY COMMITTEE

HOUSE BILL NO. 5819: AAC ENERGY RELIEF AND ASSISTNACE

MARCH 7, 2008

TESTIMONY OF THE

DEPARTMENT OF PUBLIC UTILITY CONTROL

The DPUC believes that is an important and worthwhile exercise for this Committee to explore the benefits that might be derived from the creation of alternative electric contract procurement mechanisms.

The procurement of our state's two default electric service programs (Standard Service & Last Resort Service) is a considerable undertaking. The DPUC conducts several administrative proceedings to set the principles and standards, to receive the recommendations of the electric distribution companies, the Office of Consumer Counsel, and independent expert energy consultants, and finally, to select winning bidders.

This is a time consuming regulatory exercise, yet ironically, at the end of our process we must issue our final decision selecting successful bidders in matter of several days. While the current statute allows us up to ten days to take action, the DPUC has always made the decision within two to three days. The new language proscribes two days, up to three days would be more realistic. The reason for such a short review window is that bidder's positions and hedges must be confirmed or unwound and the costs and risks of that activity translate directly into price premiums on bid prices. By way of example, the annual cost of electricity purchased for Standard Service is well over \$4 billion, so even a very small premium translates into millions or tens of millions of dollars.

As we move further into our Standard Service procurement process, we believe that it would be in our interest to become considerably more sophisticated about our bidding process. Realizing that the best prices that the market can produce will likely involve a portfolio of contracts of varying types, lengths and duration. This probably means that bidding activities should be conducted on an unbroken, ongoing basis.

An independent entity, not distracted by a host of other activities, could spend the appropriate time and resources to develop and implement these new strategies. It could retain the best advisors on an ongoing basis to monitor the market and suggest actions that could produce better prices. The entity could also interact with the electric distribution companies without concern for other cases or issues involving them pending before the DPUC – the relationship would be more consistent, cooperative, and complementary, as distinguished from the current relationship of regulator to regulated

entity. Moreover, an independent entity would obviate the current situation which requires the DPUC to run the process and then rule on its conduct and results.

We prefer this year's proposed language which no longer has the entity actually taking title to the power procured – that model would require an enormous capitalization (several billion dollars), the posting of an indemnity to the limit of the entity's assets and would require it to become a market participant, joining NEPOOL and ISO-NE. Moreover, the power acquired through the bidding process must be constantly augmented or reduced as load conditions change – the personnel and assets necessary to conduct this constant trading would be very costly and would ultimately expose the entity to liabilities measured in billions of dollars.